



**Director of  
Central  
Intelligence**

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# National Intelligence Daily

*Monday  
29 September 1980*

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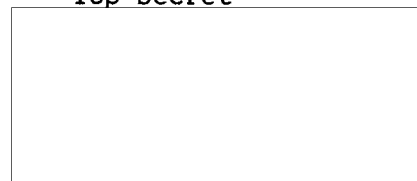
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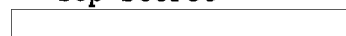
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POLAND

*Rumors that a large portion of the Soviet-Polish border has been closed and that Polish First Secretary Kania has gone to Moscow cannot be confirmed.* [redacted]

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The Swedish Embassy in Warsaw reported on Friday that, according to an eyewitness who traveled half the length of the Polish-Soviet border from Brest to Braniewo on 24-25 September, all crossing points except the one at Brest were closed to general traffic. Militia were present in large numbers at these closed border crossing points. The US Consulate in Leningrad reported that similar rumors were heard on Friday from Soviet sources in Vilnius, approximately 75 miles from the Polish border. [redacted]

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There is no information to confirm these reports. Although adverse weather conditions continue to hamper overhead photography of many key areas, [redacted]

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The Swedish Embassy also reported that Kania was on his way to Moscow on Friday, and various Western correspondents have heard rumors that he is there. The US Embassy in Warsaw reported similar information, with one source claiming that the Polish party plenum was postponed from Friday until today because of the trip. [redacted]

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Rumors of a Kania visit to Moscow first surfaced in Warsaw two weeks ago. Such a trip normally would be customary. New party leaders in Eastern Europe traditionally have traveled to the Kremlin to pay their respects within a month of assuming power. A secret trip by Kania prior to the party plenum, however, would indicate either that he is having some difficulty implementing personnel and policy changes or that the Soviets are dissatisfied with the new Polish leadership's progress in repairing the party's shaken authority. [redacted]

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BRIEFS AND COMMENTS

ITALY: Government Resigns

*Italian Prime Minister Cossiga's government resigned yesterday after failing by a single vote Saturday to obtain parliamentary approval of its controversial economic program.* [ ]

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The government won an earlier rollcall confidence vote by a comfortable margin, but its subsequent defeat on the secret ballot test of the economic program apparently convinced the Prime Minister that future defections from his Christian Democratic - Socialist - Republican parliamentary majority would seriously hamper his coalition's ability to govern. [ ]

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The government's defeat represents a severe blow to the aspirations of the moderate-conservative Christian Democratic and Socialist leaders who had pinned their hopes on the Cossiga government's ability to provide an alternative to a government with Communist support. Conversely, this development can be interpreted as a victory for leftwing Christian Democrats and Socialists who had fought during Cossiga's tenure for greater cooperation between the government and the Communists. The government's resignation also can be seen as strengthening Communist chief Berlinguer's arguments that no Italian government can govern effectively without some assistance from the Communists. [ ]

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Italian President Pertini now will likely tap Cossiga to form a new government, and the Prime Minister's initial efforts probably will be aimed at a cabinet reshuffle among the partners of his current coalition. Cossiga, however, reportedly has taken his parliamentary defeat hard and may refuse to accept the charge if it is offered. In this case, Pertini probably would designate another Christian Democrat--perhaps Party Secretary Piccoli, Party President Forlani, or Minister of Industry Bisaglia--to try his hand. [ ]

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The new Prime Minister - designate, whoever he is, will almost certainly be forced to confront the interparty tensions which led to the collapse of Cossiga's coalition. He also will be faced with a revival of the question of Communist participation in the national governing process. [ ]

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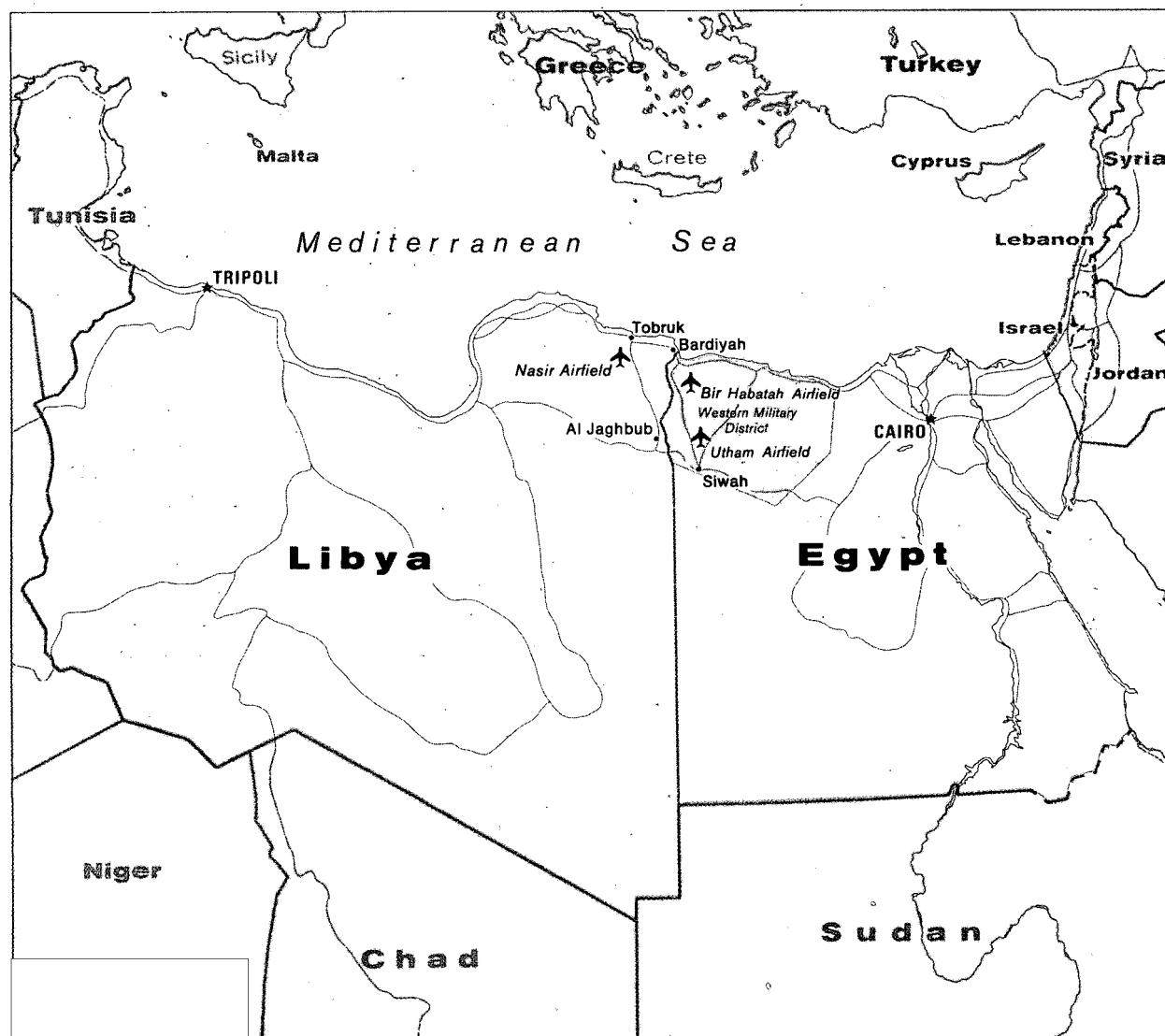
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EGYPT-LIBYA: Border Developments

*Recent satellite photography indicates that the Egyptians are building another new fighter airbase in the Western Military District and that the Libyans are continuing defensive preparations.*

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The new airfield--apparently called Uthman--is 57 kilometers north of Siwah and is similar to the other new fighter base under construction since early 1979 at Bir Habatah. Uthman appears to be about six to eight months behind Bir Habatah, which is now ready for operations.

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The two new facilities will give the Egyptians four major fighter bases near the Libyan border and demonstrate Cairo's intention to station more combat aircraft in the border area.

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The airbase construction program is part of Cairo's efforts--undertaken largely since the Egyptian-Israeli peace treaty was signed--to build up Egypt's permanent military infrastructure near the Libyan border. The

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Military developments in Libya along the Egyptian border appear to reflect largely precautionary defensive measures.

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## SOUTH KOREA: New Constitution

*The draft constitution, made public this morning, reflects the Army's determination to mold political institutions according to its own values and goals but is less authoritarian than the system under President Park.*

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The constitution will take effect immediately upon approval by a national referendum in late October, at which time the National Assembly and political parties will be dissolved. The Army-dominated Special Committee for National Security Measures will serve as an interim legislative body until a new four-year Assembly is convened next summer.

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The Special Committee will be empowered to establish ground rules for the formation of political parties and the election of the new Assembly. A large new progovernment party--composed of retired officers and a fresh generation of civilians--will be organized, but several smaller parties, to be created from remnants of existing parties, also will be permitted.

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A political "purification" law will allow the government to screen all candidates for the new Assembly. Martial law will be lifted or modified when the ground rules are promulgated, and it is possible that political activity will resume in late November.

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The Army is determined to set a precedent for the peaceful transfer of power from one administration to the next. The president will be limited to a single seven-year term, and his emergency powers and ability to amend the constitution to extend his time in office are to be subject to National Assembly approval.

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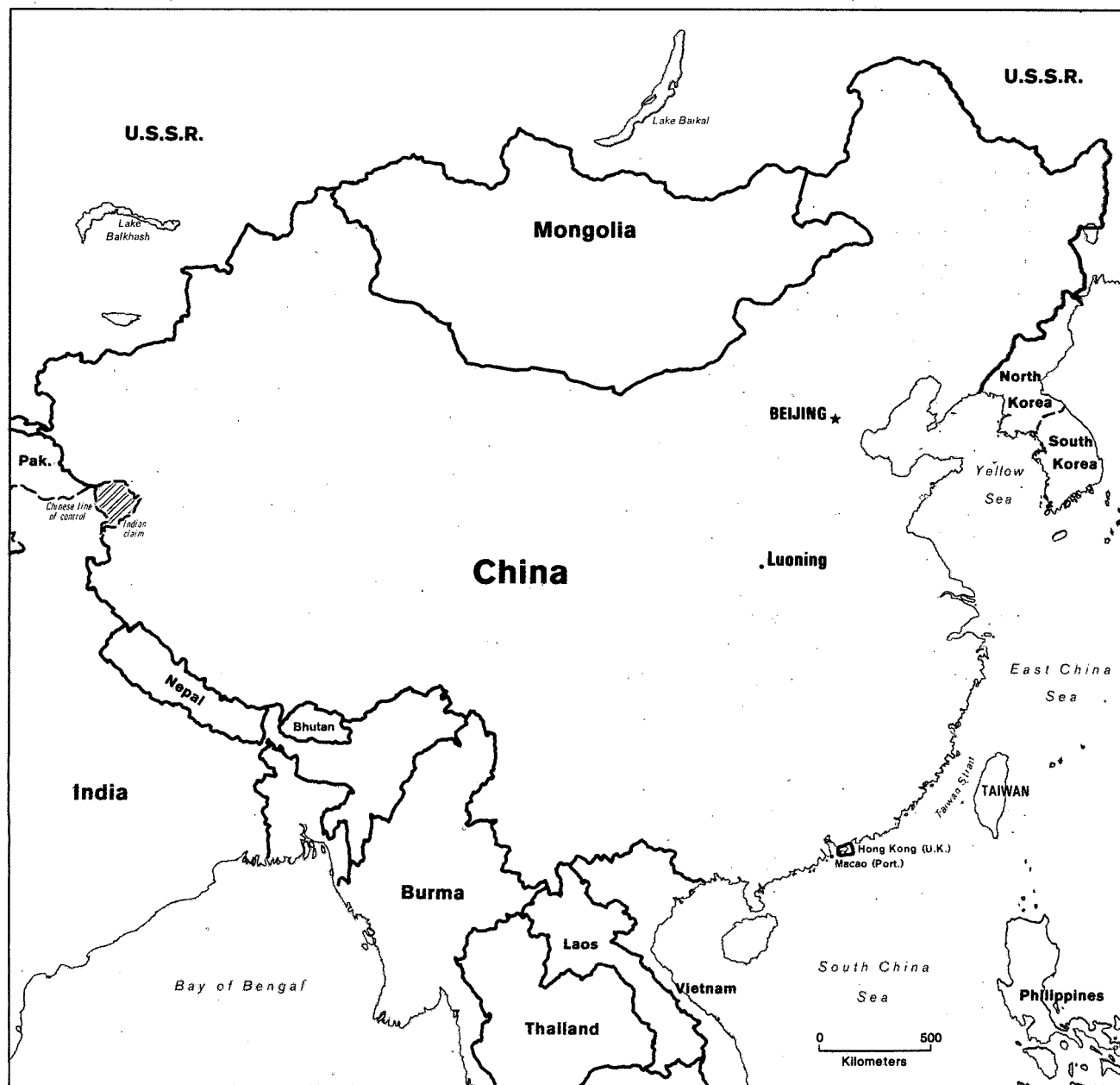
Past presidents and elder statesmen will be honored by appointment to a presidential advisory council. The president will still be elected indirectly, but political party members will be permitted to run for the enlarged 5,000-person electoral college.

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CHINA: ICBM Deployment

*China's CSS-X-4 ICBM--the country's first weapon capable of reaching all targets in both the USSR and the US--now may be operational.* [redacted]

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[redacted], The newly loaded missile could be launched in an emergency, but a thorough checkout of the system probably would require at least several more weeks. [redacted]

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Initial deployment of the missile apparently will be limited. We have been able so far to detect the construction of only the two silos at Luoning, and construction of additional silos--if begun now--would take at least another four years. [redacted]

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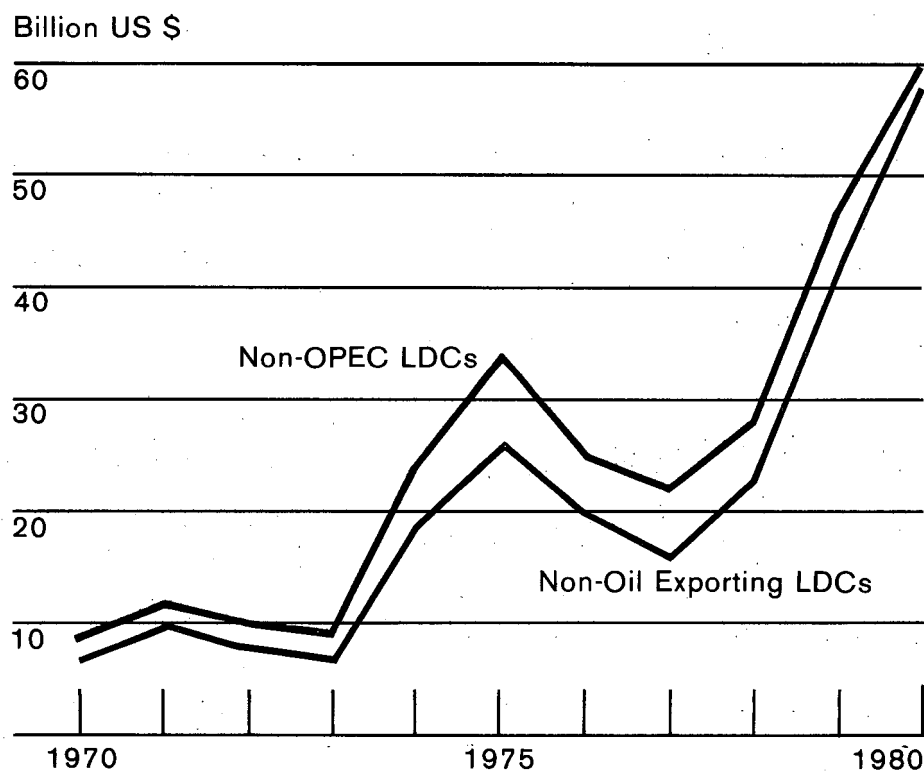
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## Non-OPEC LDCs: Current Account Deficits



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INTERNATIONAL: Prospects of Nonoil Developing Countries

*Oil-short developing countries that are represented at the annual meeting of the World Bank and International Monetary Fund starting tomorrow will call attention to their growing economic plight--largely a result of increased oil costs--and they will demand consideration for their growing financial needs.*

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The combined economic growth of the nearly 100 developing countries that do not export oil will decline for the second consecutive year to below the post-1973 average rate. The factors slowing growth--rising oil prices, slackening export demand resulting from the recession in industrialized countries, and rising prices of nonfuel imports--also will result in steep increases in their current account deficits, totaling close to \$60 billion. Higher import prices for oil and other products as well as government policies designed to combat slowed economic growth, furthermore, will push the aggregate inflation rate of these countries to about 50 percent for 1980.

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Although most of the current account deficit again is being financed through private and official medium- and long-term borrowing, a larger portion than usual will be covered by high-cost short-term loans and by drawing on foreign exchange reserves. The group's aggregate external debt, not including short-term debts, will rise to \$300 billion by the end of the year, while debt servicing costs will rise to \$45-50 billion for the year. Ten developing countries already have had to seek to reschedule their debts this year.

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Current account deficits probably will increase next year, and inflationary pressures will remain high. Financing is likely to be more difficult because of the more cautious lending policies of Western banks and because of the reluctance of both OPEC and the governments of industrialized countries to expand their aid programs substantially.

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ARGENTINA-USSR: Grain Trade

Argentine exports of grain and soybeans to the USSR during the year ending 30 September will reach 6.7 million tons--3 million more than expected before the US embargo. The 4.5-million-ton limit set by agreement between Washington and Buenos Aires on Argentine exports of corn, sorghum, and soybeans to the USSR has been exceeded by 200,000 tons. Less corn but more sorghum and soybeans were delivered than stipulated. An Argentine Foreign Ministry delegation is to visit Washington this week to discuss the size of next year's sales to the USSR. Argentina already has made a 4.5-million-ton minimum commitment and probably could deliver an additional 3.5 million tons or more, if the Soviets were to pay premium prices. [REDACTED]

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## SPECIAL ANALYSIS

### TURKEY: Economic Outlook

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*Turkey's economic outlook should improve in the near term because of the military takeover but will continue to hinge on firm implementation of the stabilization program, backed by continued foreign aid. Even with tight adherence to such austere economic policies, however, Turkey will require at best two years before it can get by without emergency aid. The balance-of-payment deficit is too large to overcome quickly.*

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Soon after the coup, the military announced that Turkey would continue former Prime Minister Demirel's stabilization program and that Turkey would honor all its foreign economic commitments. The military leaders realize that the struggling economy is being kept afloat by foreign aid, much of which is contingent on Turkey's continuing to meet policy performance guidelines laid down by the International Monetary Fund.

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The new government probably will continue Demirel's key innovation of frequent small devaluations to maintain a competitive lira. In addition, Ankara has ordered striking workers back to their jobs and may implement by decree the tax reform that was bogged down in parliament. The military regime can put more pressure on state firms to become more self-sufficient through price increases and personnel reductions.

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### Demirel's Stabilization Program

The generals will carry out the conservative, market-oriented stabilization program more rigorously than Demirel was able to do. The program, which was introduced on 24 January, represented a sharp break with economic policy of recent years.

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The centerpiece of the program was a major devaluation of the lira. Other important elements included a sharp cut in subsidies to State Economic Enterprises and a concomitant reduction of the overall budget deficit; removal of price and interest rate controls; slower monetary growth; increased export incentives; tax reform; and opening the economy to private foreign investment. [ ]

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#### Initial Encouraging Signs

The program evidently was beginning to work. Demirel's initial devaluation of the lira on 24 January was as large as the successful devaluation in 1970 and much larger than the failed devaluations in 1978 and 1979. [ ]

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The devaluation put the lira at an economically realistic level for the first time since the oil price hikes in 1973. Furthermore, that position has been maintained for the past six months by a series of small devaluations, something no previous government had been willing to do. [ ]

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The balance of payments has improved since the program began in January. Worker remittances rose sharply--up 98 percent comparing the six-month period following the devaluation with the previous six-month period--to an annual rate of \$2 billion. [ ]

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Seasonally adjusted exports jumped 22 percent in value in the first quarter, compared to fourth quarter 1979. They rose an additional 14 percent during the second quarter to an annual rate of \$2.6 billion. Imports declined 3 percent during the first quarter, then rose only 1 percent during the second to an annual rate of \$5.5 billion. [ ]

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Shortages for the most part have been alleviated due to the sizable amounts of foreign aid and to higher prices bringing supply and demand back into balance. Government subsidies to State Economic Enterprises are lower and, as a result, the budget deficit has been reduced. [ ]

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The stabilization program has had its most visible impact on the inflation rate. Immediately after its introduction, prices soared because controls were removed and state sector prices were increased to levels in line with costs. Since April both consumer and wholesale prices have been rising at annual rates of around 40 percent--about half the pace recorded during the latter part of 1979. [ ]

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The program has not done well in getting industrial production back on track largely because of tight credit and labor disruptions. The industrial slump, a rapidly growing labor force, and the pressure on state enterprises to lay off surplus workers means that unemployment will continue to increase in the short term. Officially the unemployment rate is now 15 percent; unofficial estimates place it at 20 to 25 percent. [ ]

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#### Outlook

If the stabilization program is maintained, the economy should continue its slow improvement. The road ahead, however, is long and uncertain. Disruption of Iranian and Iraqi oil supplies--on which Turkey is heavily dependent--could nip economic recovery in the bud. [ ]

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Assuming the recovery program is not derailed by a cutoff of oil, Turkey still will need additional infusions of foreign aid next spring. Turkey has enough aid pledges to cover its financial gap in 1980, and donors apparently will honor their commitments. By about March, however, Turkey will need new aid pledges for 1981--particularly from the members of the Organization for Economic Cooperation and Development. [ ]

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Prospects for fresh inflows of private capital remain poor. Private banks will remain reluctant to grant new loans or to reschedule--for a second time--Turkey's outstanding debts. The banks already feel overextended in Turkey and two recent studies of international credit-worthiness both ranked Ankara in the bottom 10 percent. [ ]

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